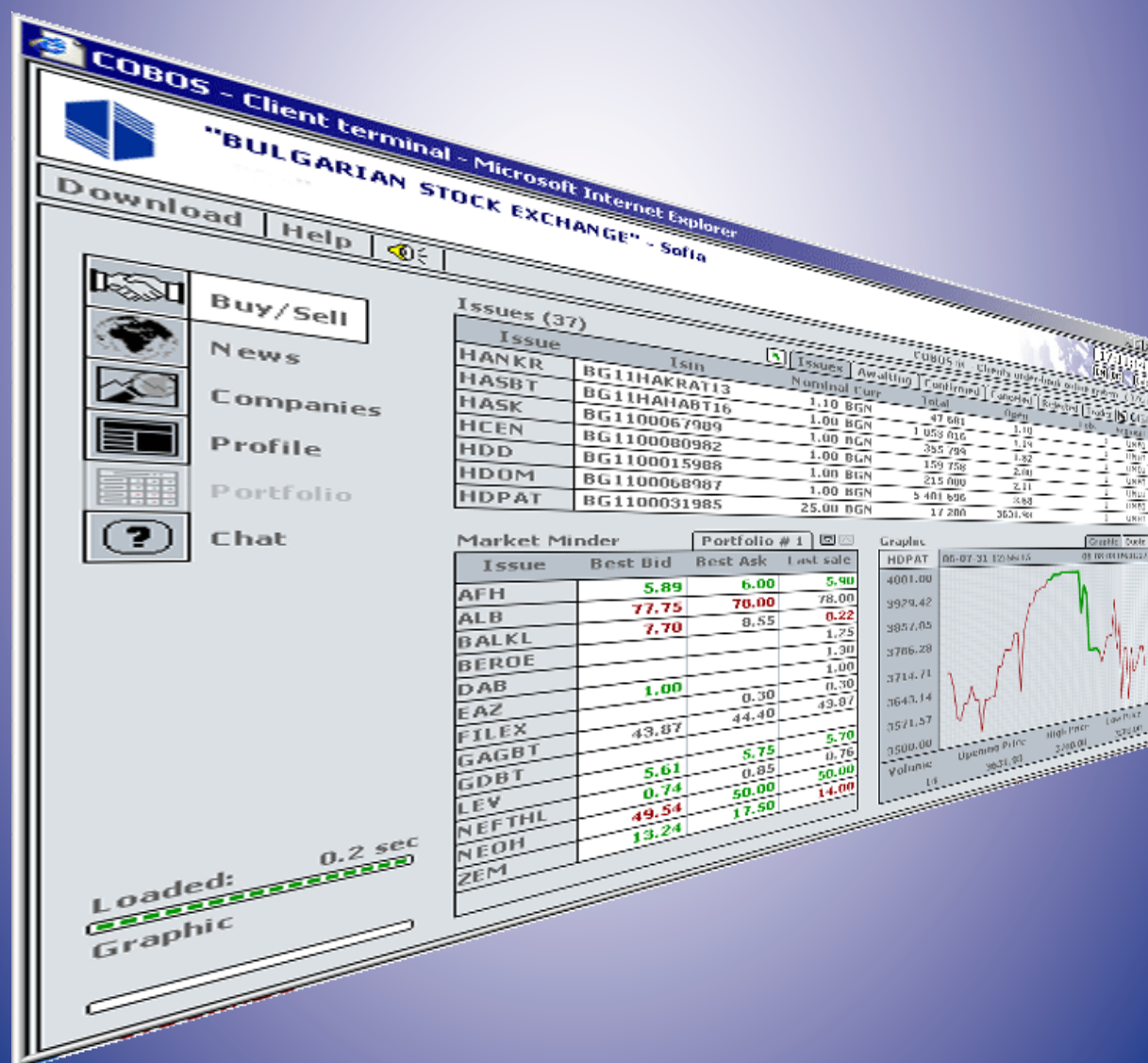


BULGARIAN STOCK EXCHANGE - SOFIA

REPORT OF BULGARIAN STOCK EXCHANGE - SOFIA FOR 2007



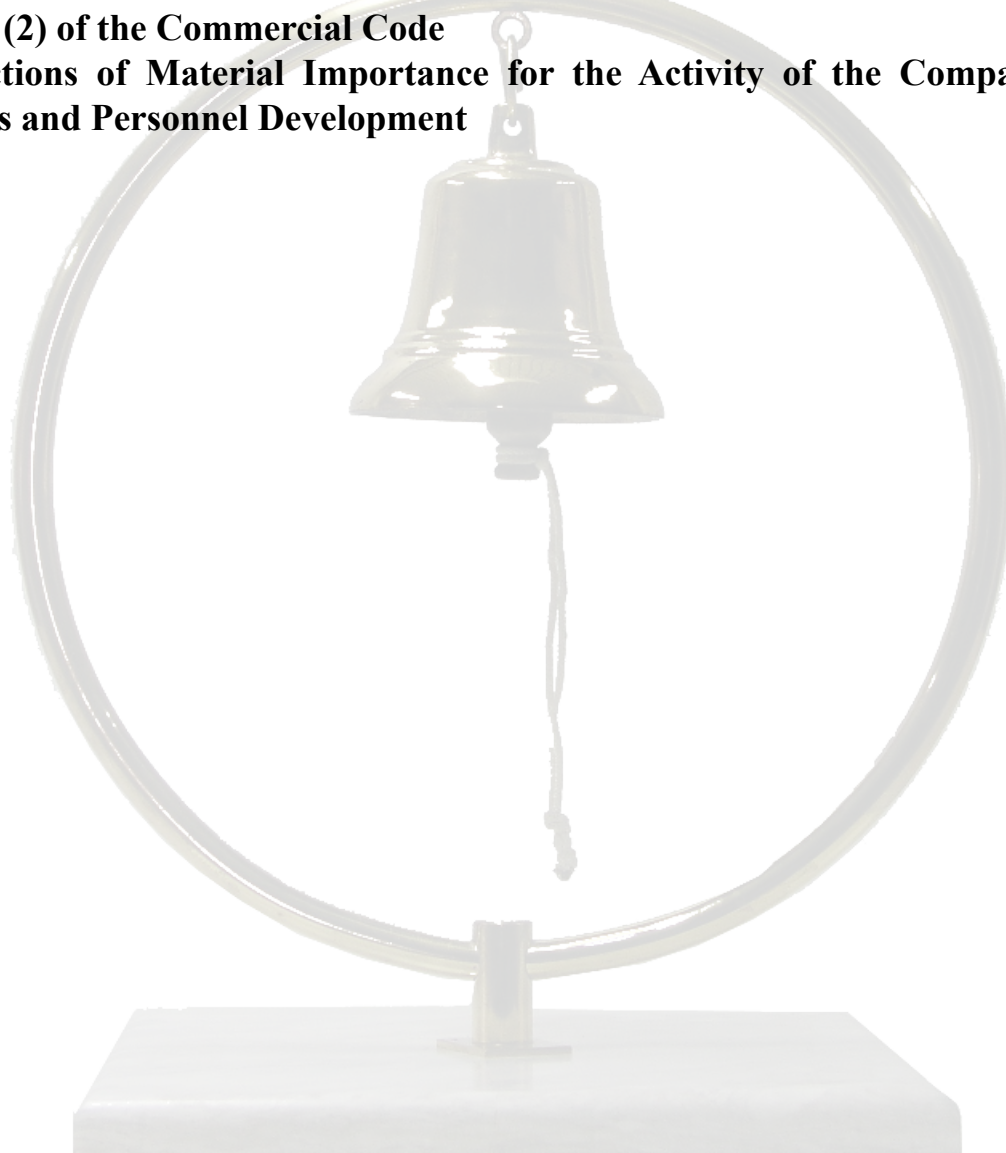
Sofia
April 2008

CONTENTS

1	Introduction	4
2	Trading data	4
2.1	Volume, turnover, number of transactions	4
2.2	Trading structure by market segments	8
3	Listed securities	9
4	New issuers, delisted securities and capital increases in 2007	10
5	Market capitalization of the Exchange	12
6	Free float of shares traded on BSE	14
7	Privatization through the Exchange	15
7.1	Centralized public auctions	15
7.2	Remote public auctions	15
8	BSE-Sofia indices	16
9	Comparative analysis of BSE and the Exchanges of Southeastern Europe	17
10	Legal Framework	18
10.1	Amendments to the Rules and Regulations of BSE-Sofia AD	18
10.2	Amendments to the COBOS Rules	19
10.3	Amendments to the Rules for Calculating the Indices of BSE-Sofia AD	19
11	IT Development	20
11.1	Implementation of a new trading system	20
11.2	Electronic system for information disclosure by public companies and other issuers of securities (EXTRI)	21
11.3	BSE's Client Order-Book Online System (COBOS)	21
11.4	BSE Online	22
11.5	Calculating financial ratios of public companies	22
12	Corporate Governance Code	23
13	Implementation of the Development Programme of the Exchange	23
13.1	Attraction of issuers	24
13.2	General promotion of BSE-Sofia AD	24
13.3	Information services	25
14	International activities and external relations	25
15	Shareholders structure of BS-Sofia AD	26
16	Members of BSE-Sofia AD	26
17	Financial state of BSE-Sofia AD	27
17.1	Income from Operating Activities of the Exchange for 2007	27
17.2	Operating Expenses of the Exchange for 2007	29
17.3	Assets at 31 December 2007	29
17.4	Market risk	30
17.5	Credit risk	31
17.6	Liquidity risk	31
17.7	Interest rate cash flow risk	31
18	Overall Strategy for Development of BSE-Sofia AD in the 2008-2010 Period	32
18.1	Technological renovation	32
18.2	Increase of the number, volume and diversity of the financial instruments traded on BSE-Sofia	33

BULGARIAN STOCK EXCHANGE- SOFIA

18.3	Attraction of more local and foreign investors	34
18.4	Improvement of the quality of corporate governance	35
18.5	Improvement of trading conditions	35
18.6	Development of the information services of the Exchange	35
18.7	Communication and PR Strategy	35
18.8	International cooperation	36
19	Information on the Members of the Board of Directors of BSE-Sofia AD under Article 247 (2) of the Commercial Code	36
20	Transactions of Material Importance for the Activity of the Company, Expected Investments and Personnel Development	38



1 Introduction

This Annual Report has been prepared in accordance with Article 85 (6) of the Markets in Financial Instruments Act and Article 247 of the Commercial Code. It contains data on the activities of BSE-Sofia AD (“the Exchange”), on the composition of its shareholders and members, as well as financial statements according to Article 26 (1) of the Accountancy Act. The Report provides information on the achievements of the Exchange in 2007, taking into account the key performance indicators, accompanied by relevant analyses and conclusions. It outlines the major trends in the development of the capital market, as well as the implementation of the priorities set in the Strategy and Development Programme of BSE-Sofia AD. The Report systematizes the critical issues in the strategic development of the Exchange in the medium term (2008-2010) on the basis of the Overall Development Strategy of BSE-Sofia AD for this period.

The Bulgarian capital market is compared in brief with the exchanges in Southeastern Europe, and the key aspects of the development of the Exchange are outlined separately, including the forthcoming integration processes, as well as in its international relations.

2 Trading data

2.1 Volume, turnover, number of transactions

In 2007 the Exchange achieved the best results since the establishment of the capital market in Bulgaria. BSE-Sofia AD recorded a turnover of BGN 9.946 billion, which was nearly treble the turnover in 2006. The monthly level in August set a record of BGN 3.7 billion-plus in the history of the Exchange, due to a transfer of 90% of the capital of the Bulgarian Telecommunication Company AD.

Among the numerous reasons for the heightened interest, the principal ones during the year were, on the whole, the optimism inspired by Bulgaria’s admission to the European Union, as well as the increased inflow of foreign investment. The reduction of corporation tax from 15 to 10% provided another major impetus to a strong performance of issuers and to bringing the results of their activity to light. The successful implementation of the BSE-Sofia AD Issuers Attraction Strategy and the promotion of the Exchange were also instrumental in increasing the volumes of trade. The roundtables and meetings organized with companies from various regions of the country played a key role in encouraging them to make a decision on going public.

In 2007 the number of transactions was more than double the number on the previous year. On the Unofficial Market of Equities, the turnover grew by more than 300% compared to 2006, topping BGN 6.5 billion. On the Official Market, the turnover increased by 50% from 2006 despite the restructuring of the segments (Segment “C” of the Official Market was discontinued) in mid-January 2007, with 12 issuers being transferred to Segment “A” of the Unofficial Market.

Turnover on the bond markets reached BGN 374 million in 2007, an increase of 25.85% from 2006. This segment, however, continued to account for a small share in the total turnover: just 3.76% in 2007, down from 8.79% at the end of 2006. The number of listed bonds grew from 73 to 87 during the period under review, thanks to a large number of new issues on the Unofficial Market of Bonds. Presumably, the number of listed bonds will continue to tend rapidly up in the coming years. However, considering the nature of this type of instruments and investors’ preferences to keep them until maturity, a substantial rise in trading activity is not expected.

The average daily turnover on the Exchange in 2007 amounted to BGN 39.78 million for 250 trading sessions, compared to BGN 13.59 million for 249 sessions in 2006.

BULGARIAN STOCK EXCHANGE- SOFIA

Trading Structure by Market (volume)

(Table 1)

Market	Volume (lots)		
	2007	2006	Change
Block and other registered trades	287,200,436	166,778,396	72.20%
Tender offers	13,401,305	104,509	12,723.11%
Redemption of securities	0	0	-
Privatization transactions paid in BGN	0	0	-
Privatization transactions paid in compensation instruments	0	0	-
Official Market, Segment "A"	12,973,250	5,689,341	128.03%
Official Market, Segment "B"	100,313,547	84,882,427	18.18%
Official Market, Segment "C"	248,977	13,726,401	-98.19%
Official Market, corporate bonds	11,315	29,226	-61.28%
Official Market, municipal bonds	0	1	-100.00%
Official Market, government securities	0	0	-
Unofficial Market of Equities	536,806,449	171,674,827	212.69%
Unofficial Market of Bonds	237,723	165,820	43.36%
Unofficial Market of compensation instruments	83,413,113	211,894,565	-60.63%
Unofficial Market of other securities	52,921,006	88,910,344	-40.48%
Transactions under Article 54 (5)	0	0	-
IPO Market of Equities	0	10,384,284	-100.00%
IPO Market of Bonds	0	0	-
IPO Market of other securities	12,285,000	9,752,500	25.97%
IPO Market of government securities		0	-
Large volumes of shares	10,926,859	144,063	7,484.78%

BULGARIAN STOCK EXCHANGE- SOFIA

Centralized public auctions	72	241,620	-99.97%
Remote public auctions	4	16	-75.00%
Total	1,110,739,056	764,378,340	45.31%

Trading Structure by Market (turnover in BGN)

(Table 2)

Market	Turnover (BGN)		
	2007	2006	Change
Block and other registered trades	1,329,772,258	542,843,783	144.96%
Tender offers	171,696,464	1,172,875	14,538.94%
Redemption of securities	0	0	-
Privatization transactions paid in BGN	0	0	-
Privatization transactions paid in compensation instruments	0	0	-
Official Market, Segment "A"	150,145,023	30,594,891	390.75%
Official Market, Segment : "B"	1,123,565,752	670,249,231	67.63%
Official Market, Segment "C"	6,113,551	142,633,014	-95.71%
Official Market, corporate bonds	12,109,190	42,687,014	-71.63%
Official Market, municipal bonds	0	1,025	-100.00%
Official Market, government securities	0	0	-
Unofficial Market of Equities	6,515,807,270	1,449,903,231	349.40%
Unofficial Market of Bonds	362,250,546	254,769,106	42.19%
Unofficial Market of compensation instruments	41,724,441	135,985,111	-69.32%
Unofficial Market of other securities	73,877,888	46,029,442	60.50%
Transactions under Article 54 (5)	0	0	-
IPO Market of Equities	0	12,297,862	-100.00%

BULGARIAN STOCK EXCHANGE- SOFIA

IPO Market of Bonds	0	0	-
IPO Market of other securities	25,206,883	10,060,941	150.54%
IPO Market of government securities	0	0	-
Large volumes of shares	122,006,548	41,569,248	193.50%
Centralized public auctions	11,494,049	2,942,785	290.58%
Remote public auctions	35,922	416,411	-91.37%
Total	9,945,805,785	3,384,155,972	193.89%

Trading Structure by Market (number of transactions)

(Table 3)

Market	Transactions		
	2007	2006	Change
Block and other registered trades	13,047	386	3,280.05%
Tender offers	86	9	855.56%
Redemption of securities	0	0	-
Privatization transactions paid in BGN	0	0	-
Privatization transactions paid in compensation instruments	0	0	-
Official Market, Segment "A"	38,813	15,860	144.72%
Official Market, Segment "B"	126,180	25,558	393.70%
Official Market, Segment "C"	800	37,180	-97.85%
Official Market, corporate bonds	225	172	30.81%
Official Market, municipal bonds	0	1	-100.00%
Official Market, government securities	0	0	-
Unofficial Market of Equities	293,972	112,236	161.92%
Unofficial Market of Bonds	995	1,065	-6.57%

BULGARIAN STOCK EXCHANGE- SOFIA

Unofficial Market of compensation instruments	7,609	15,615	-51.27%
Unofficial Market of other securities	6,489	4,051	60.18%
Transactions under Article 54 (5)	0	0	-
IPO Market of Equities	0	433	-100.00%
IPO Market of Bonds	0	0	-
IPO Market of other securities	384	575	-33.22%
IPO Market of government securities	0	0	-
Large volumes of shares	1,875	279	572.04%
Centralized public auctions	72	164	-56.10%
Remote public auctions	4	16	-75.00%
Total	490,551	213,600	129.66%

2.2 Trading structure by market segments

In 2007, companies operating in the field of transport and communications were most actively traded on the market of equities, with a turnover exceeding BGN 3.3 billion. Trading in the shares of Bulgaria's largest public company, Bulgarian Telecommunications Company (BTC), accounted for over 98% of the total turnover in this sector. This substantial value was largely due to a transfer of a 90% stake in the company for over BGN 2.78 billion in August.

Companies from the sector of financial intermediation were the second most actively traded on the market of equities, with a turnover exceeding BGN 2.9 billion. This segment includes banks and holding companies. Considering the listing for trading of the shares of First Investment Bank AD and Corporate Commercial Bank AD in June 2007, financial intermediation is expected to remain among the leading sectors in terms of turnover in the next year. In 2007 the sector was ranked first in terms of number of transactions concluded with over 142,000 transactions.

Trading Structure in the Top 10 Segments on BSE-Sofia AD

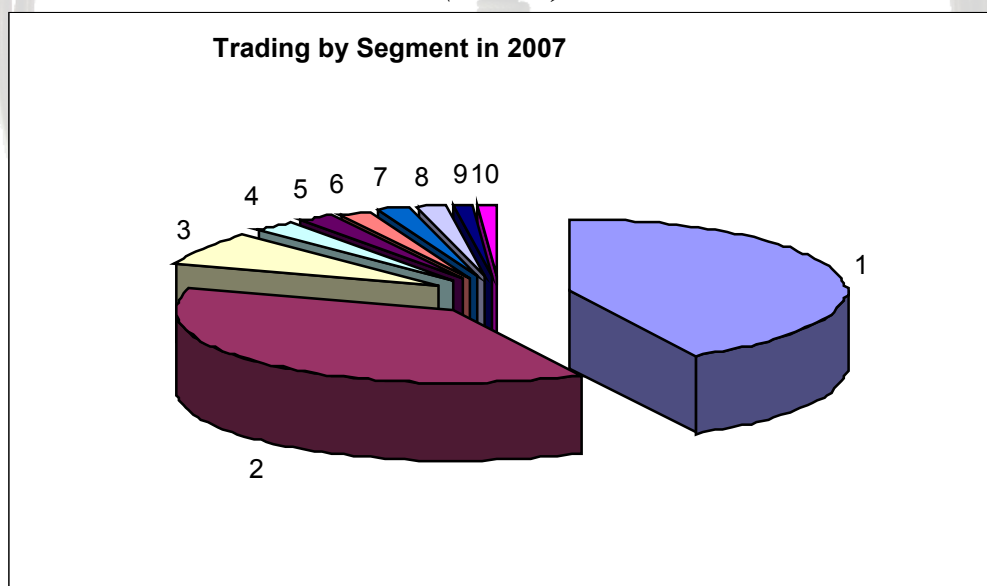
(Table 4)

	Sector	Number of transactions	Number of lots	Turnover (BGN)
1	Transport, storage and communications	8,036	303,643,637	3,316,087,691
2	Financial intermediation	142,972	177,671,897	2,927,237,561
3	Wholesale and retail trade; repair of motor vehicles and motorcycles, of personal and household goods	45,515	54,462,026	576,167,932

BULGARIAN STOCK EXCHANGE- SOFIA

4	Manufacture of chemicals, chemical products and man-made fibres	41,351	34,571,358	200,521,184
5	Construction	15,529	687,487	169,497,909
6	Manufacture of electrical and optical equipment	32,613	10,910,600	158,293,698
7	Real estate, renting and business activities	57,271	27,260,396	153,389,023
8	Manufacture of basic metals and fabricated metal products, except machinery and equipment	29,386	3,923,698	118,952,690
9	Manufacture of machinery and equipment, except electrical and optical equipment	20,174	5,431,061	95,723,492
10	Mining and quarrying, except of energy producing materials	10,534	5,521,287	85,348,123

(Chart 1)



3 Listed securities

The number of listed securities on BSE-Sofia reached 509 by 31 December 2007 (See Table 5), 46 issues more compared to the end of 2006. A substantial increase was registered on the Unofficial Market of Equities, where the number of listed securities rose by 10 per cent over the period under review. The increase was due both to the large number of companies which debuted on the Exchange after initial and secondary public offerings and to the discontinuance of the Official Market Segment “C”, effective 15 January 2007 and the transfer of the issues listed there at that date to the Unofficial Market of Equities.

(Table 5)

Market	31 Dec. 2007	30 June 2007	31 Dec. 2006
Unofficial Market of Equities, Segment “A”	175	168	138
Unofficial Market of Equities, Segment “B”	186	187	190

BULGARIAN STOCK EXCHANGE- SOFIA

Unofficial Market of Equities, total	361	355	328
Unofficial Market of other securities	39	30	30
Unofficial Market of Bonds	81	73	64
Official Market of Equities, Segment "A"	4	3	3
Official Market of Equities, Segment "B"	15	13	12
Official Market of Equities, Segment "C"	-	-	14
Official Market of Equities, total	19	16	29
Official Market, corporate bonds	5	5	6
Official Market, government securities	1	1	2
Official Market, municipal bonds	-	0	1
Market of compensation instruments	3	3	3
Total	509	483	463

4 New issuers, delisted securities and capital increases in 2007

Eighty-one new issues were listed for trading on the Exchange in 2007 (see Table 6), compared to 76 new issues in 2006. Initial public offerings were at the centre of attention of the investor community and the media in 2007. During the year, nine companies debuted on BSE-Sofia after successful IPOs, generating more than BGN 305 million of additional financial resources.

The new companies which listed on the Exchange as a result of successful initial public offerings increased the representativeness of various economic sectors which were previously under-represented on the Exchange. Examples of such sectors include manufacture of food products, retail trade, construction, extractive industry, the finance sector etc.

Thirty new bond issues were listed in 2007, and the upward trend in the bond market will presumably persist next year as well.

A smaller number of capital increases with rights were listed for trading on BSE-Sofia in 2007, especially of real estate investment trusts (REITs), not considering the cases of mandatory initial capital increases. The reasons for a shift of focus from REITs during the period include an increase of companies from other attractive sectors, which turned to the capital market for financing and were listed on the Exchange after initial and secondary public offerings. Another reason is the longer period of implementation of the projects and, hence, of the cash flows with the REITs, which puts off the more speculative investors.

The number of issues delisted in 2007 was larger than in 2006, the increase being due to the maturing bond issues. As to the delisted share issues in 2007, 16 issues were delisted from the Unofficial Market: eight each on Segment "A" and Segment "B".

(Table 6)

		2007	2006
I	New issues listed at BSE, of which:	81	76
1	Shares – Real estate investment trusts (REIT)	20	18
2	Shares – Investment companies	0	1
3	Shares – Other public companies	9	8

BULGARIAN STOCK EXCHANGE- SOFIA

4	Initial public offering, of which:	9	2
4a	Initial public offering through BSE-Sofia*	1	1
4b	Initial public offering outside BSE-Sofia	8	1
5	Units –Mutual funds	13	19
6	Bonds, of which:	30	28
6a	on Official Market	0	1
6b	on Unofficial Market	30	27
II	Number of capital increases with rights, listed on BSE, of which:	21	48
1	REIT (including mandatory increases)	8	35
2	Investment companies	1	0
3	Other public companies	12	13
III	Number of issues delisted from BSE, of which:	31	20
1	Shares – Other public companies, of which:	16	12
1a	Written off from the Register of public companies and other issuers of securities	13	10
1b	Written off from Commercial Register	2	2
1c	Due to dissolution without liquidation	1	0
2	Bonds due to maturity	15	8

* Including the preference share issue of Sofia Commerce – Pawn Brokerage AD, which was listed for trading on BSE-Sofia in January 2007.

In 2007 the total nominal value (BGN) of the new issues listed for trading amounted to BGN 970 million, 65% up from 2006 (see Table 7). The substantial increase was due largely to the issues of shares in other public companies, of which the five largest were those of Zarneni Hrani Bulgaria AD, First Investment Bank AD, Corporate Commercial Bank AD, Eurohold Bulgaria AD and Kaolin AD.

Concerning the delisted issues, their nominal value (BGN) increased as well, from BGN 111.76 million in 2006 to BGN 192.55 million in 2007. The largest issue delisted during the period was the one of DZI Bank AD, as the company was written off from the register of public companies and other issuers of securities in April 2007.

BULGARIAN STOCK EXCHANGE- SOFIA

(Table 7)

		2007	2006
I	Total nominal value (BGN) of the new issues listed for trading on BSE, of which:	970,076,302	587,410,147
1	Shares – Real estate investment trusts (REIT)	41,088,144	11,300,000
3	Shares – Other public companies	480,738,232	195,265,126
4	Bonds	448,249,926	380,845,021
II	Total nominal value (BGN) of the capital increase with rights, listed for trading on BSE, of which:	170,121,894	327,293,830
1	REIT (incl. mandatory increases)	73,785,948	235,588,980
2	Investment companies	624,103	0
3	Other public companies	95,711,843	91,704,850
III	Total nominal value (BGN) of delisted issues from BSE, of which:	192,546,431	111,760,868
1	Shares – Other public companies	80,276,909	10,551,199
2	Bonds due to maturity	112,269,522	101,209,669

5 Market capitalization of the Exchange

The total market capitalization of BSE-Sofia reached BGN 28.99 billion at the end of 2007, up 89% from the end of the previous year (See Table 8). The capitalization of the Official Market increased by 51.31%, although the issues listed on that segment decreased from 29 to 19 during the period as a result of the discontinuance of Segment “C”. The market capitalization of the Unofficial Market rose by 111.44% over the last 12 months, while the number of issues listed increased from 328 to 361.

BSE-Sofia achieved a steady growth in the Market Capitalization/Gross Domestic Product ratio (see Table 9). The ratio reached 55.46% at the end of December 2007, nearly double compared to the end of 2006.

Market Capitalization (BGN mln, end of year)

(Table 8)

	2007	2006	2005	2004	2003
Official Market, Segment “A”	837.28	319.26	122.10	53.42	28.00
Official Market, Segment “B”	7,700.30	3,239.13	688.46	423.33	283.47
Official Market, Segment “C”	-	2,084.15	1,337.70	898.12	674.51
Official Market, total	8,537.58	5,642.54	2,148.26	1,374.87	985.98
Unofficial Market, Segment “A”	19,632.78	9,220.11	-	-	-
Unofficial Market, Segment “B”	816.49	451.36	-	-	-
Unofficial Market, Total	20,449.27	9,671.47	6,285.70	2,658.32	1,736.02

BULGARIAN STOCK EXCHANGE- SOFIA

Total:	28,986.86	15,314.01	8,433.96	4,033.19	2,722.00
---------------	------------------	------------------	-----------------	-----------------	-----------------

Market Capitalization / Gross Domestic Product (end of year)

(Table 9)

	2007	2006	2005	2004	2003
Market Capitalization/GDP	55.46%*	29.30%	20.11%	10.54%	7.88%
*Capitalization: at 31 December 2007, GDP: according to BNB estimates for 2007					

By 31 December 2007, the market capitalization of the top 20 public companies according to this indicator reached 64.84% of the total capitalization of BSE-Sofia AD by the same date (by comparison, the ratio was 70.81% by 31 December 2006). On the other hand, the capitalization of the top 20 companies increased 73.31% against the capitalization of the market leaders at the end of December 2006, which was less than the increase of the total capitalization of the Exchange for the period under review (+89.28%).

Bulgarian Telecommunication Company AD remains on top of the market capitalization ranking, with BGN 3.1 billion-plus at the end of December 2007 (see Table 10). The weight of the largest public company as a percentage of the total exchange capitalization, however, decreased during the period under review: from 19.08% by 31 December 2006 to 10.91% by 31 December 2007.

By the end of December 2007, seven of the companies listed for trading during the year figured in the ranking: CB First Investment Bank AD, Zarneni Hrani Bulgaria AD-Sofia, Singular REIT-Sofia, Trace Group Hold AD-Stara Zagora, Monbat AD-Sofia, CB Corporate Commercial Bank AD and Kaolin AD-Senovovo. This fact yet again confirmed the trend of an ever increasing number of companies realizing the advantages of public status, with the quality of the issuers themselves improving as well.

The number of companies with market capitalization exceeding BGN 1 billion increased during the period under review: from one by 31 December 2006 to five by 31 December 2007.

Top 20 Public Companies based on Market Capitalization as of 31 December 2007

(Table 10)

Code	Company	Capitalization (BGN)
BTC	Bulgarian Telecommunication Company AD	3,161,974,998
CHIM	Chimimport AD	2,326,499,752
FIB	CB First Investment Bank AD	1,266,100,000
SFARM	Sopharma AD-Sofia	1,184,040,000
BACB	CB Bulgarian American Credit Bank AD	1,005,685,594
DRUPL	Druzhba Staklarski Zavodi AD-Sofia	936,204,202
BRIB	CB Economic & Investment Bank AD	780,870,272
CCB	CB Central Cooperative Bank AD	772,719,473
ZHBG	Zarneni Hrani Bulgaria AD-Sofia	770,243,056
OTZK	Lead & Zinc Complex PLC-Kardzhali	767,130,165
DZI	DZI Insurance & Reinsurance Plc.-Sofia	694,800,000
SING	Singular REIT-Sofia	650,000,000
HDPAT	Holding Roads AD-Sofia	624,277,152
TRACE	Trace Group Hold AD-Stara Zagora	616,990,000
MONBAT	Monbat AD-Sofia	595,920,000
PET	Petrol AD-Sofia	576,837,951

BULGARIAN STOCK EXCHANGE- SOFIA

CORP	CB Corporate Commercial Bank AD	576,180,000
BSTR	Bulstrad Insurance & Reinsurance Plc.-Sofia	544,981,920
ALB	Albena AD-Albena	507,561,906
KAO	Kaolin AD-Senovo	434,750,000
Total		18,793,766,441

Top 20 Public Companies based on Market Capitalization as of 31 December 2006

(Table 11)

Code	Company	Capitalization (BGN)
BTC	Bulgarian Telecommunication Company AD-Sofia	2,922,300,181
CHIM	Chimimport AD-Sofia	990,600,000
SFARM	Sopharma AD-Sofia	892,320,000
DZI	DZI Insurance & Reinsurance AD-Sofia	770,378,800
BRIB	CB Economic & Investment Bank AD-Sofia	767,065,601
BACB	CB Bulgarian American Credit Bank AD-Sofia	631,110,003
CCB	CB Central Cooperative Bank AD-Sofia	515,146,315
PET	Petrol AD-Sofia	473,050,820
RXB	CB DZI Bank AD-Sofia	402,500,000
DRUPL	Druzhba Staklarski Zavodi AD-Sofia	347,857,224
ALB	Albena AD-Albena	330,184,446
KREM	Kremikovtzi AD-Sofia	267,022,999
BTH	Bulgartabac Holding AD-Sofia	260,136,609
BLABT	Blagoevgrad-BT AD-Blagoevgrad	214,372,294
OTZK	Lead & Zinc Complex PLC-Kardzhali	210,334,000
PAPIR	Duopack-Trakia Papir AD-Pazardzhik	203,358,323
ALUM	Alcomet AD-Shumen	191,558,07
ERH	Energoremont Holding AD-Sofia	169,559,156
BSTR	Bulstrad Insurance & Reinsurance AD-Sofia	150,024,000
BRP	Bulgarian River Shipping AD-Ruse	135,367,177
Total		10,844,246,020

6 Free float of shares traded on BSE¹

The average free float of the equities traded on BSE-Sofia (excluding the shares issued by investment companies) was 24.73% by the end of December 2007. The companies with a free float between 10 and 20% had the largest share: 23.04%. Next came the public companies with a free float between 20 and 30% (17.89%) and those with a free float between 5 and 10% (14.36%).

In the case of real estate investment trusts, the free float was slightly lower than the average for the Exchange and reached 21.30% by 31 December 2007. Among these, the companies with the highest free float were Advance Terrafund REIT, Intercapital Property Development REITII and Active Properties REIT. In 24 of the REITs, the free float was 0.

¹ Source: Central Depository AD, end-December 2007; the free float does not take into account close links between minority shareholders.

BULGARIAN STOCK EXCHANGE- SOFIA

The free float of the public companies in the BG40 portfolio (included in the index by the end of December 2007) was higher than the average for the Exchange and reached 36.34%. The ranking here was topped by Severcoop Gamza Holding AD, Favorit Hold AD and Doverie United Holding PLC.

The free float of the SOFIX companies (included by the end of December 2007) averaged 27.72%. The leading companies in this respect were Industrial Holding Bulgaria PLC, Elana Agricultural Land Opportunity Fund REIT and Orgachim AD.

Ownership of the bank shares traded on the Exchange is more concentrated, and the average free float is 16.55%, i.e. lower than the average for the companies on BSE-Sofia. CB Bulgarian American Credit Bank AD tops this ranking, followed by CB Central Cooperative Bank AD and CB Corporate Commercial Bank AD.

7 Privatization through the Exchange

7.1 Centralized public auctions

In 2007, the Privatization Agency conducted two centralized public auctions through the Exchange, which generated a turnover of BGN 11.49 million (see Table 12). By comparison, the turnover nearly quadrupled from the previous year. The increase was due to the fine results achieved at the 16th centralized public auction, held between 13 and 23 August 2007, at which minority stakes in nine public companies were offered as well. The turnover of the centralized public auctions logged in 2007 reached 0.12% of the total turnover of BSE-Sofia AD (up from 0.09% for 2006).

(Table 12)

	2007	2006
Centralized public auctions conducted	2	1
State-owned shareholdings in companies offered, of which:	215	104
• paid in compensation instruments	22	23
• paid in cash	178	72
• combined payment	15	9
Number of transactions concluded	72	164
Total value of transactions (BGN)	11,494,049	2,942,785

7.2 Remote public auctions

In 2007, the Privatization Agency conducted two remote public auctions through the exchange, with a total turnover of BGN 35,922 (See Table 13). By comparison, three remote public auctions were organized in 2006, with a total turnover of BGN 416,411.

(Table 13)

	2007	2006
Remote public auctions conducted	2	3
Residual state-owned shareholdings in companies offered	6	20
Number of transactions concluded	4	16
Total value of transactions (BGN)	35,922	416,411

It should be emphasized that the activity of trading on this segment does not depend on BSE-Sofia AD, insofar

BULGARIAN STOCK EXCHANGE- SOFIA

as the Exchange is just a technical organizer of the auctions after the companies are put up for privatization by the Privatization Agency.

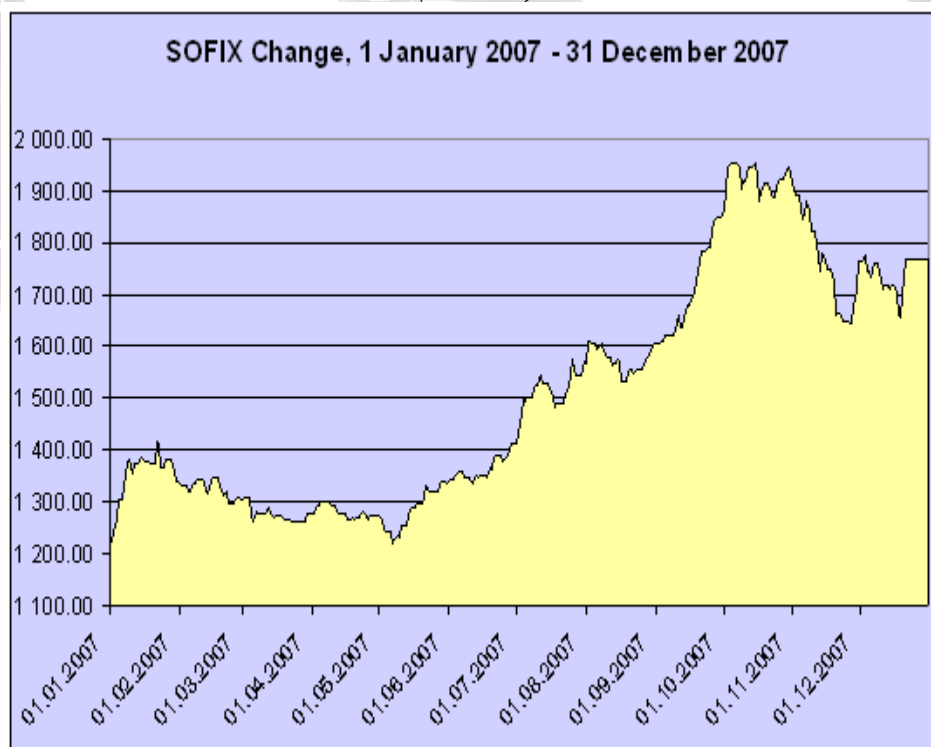
8 BSE-Sofia indices

In 2007 the blue chip index, SOFIX, rose by 44.42%, closing at 1,767.88 points (see Chart 3). The index reached an all-time high of 1,952.4 points at the end of the trading session on 15 October.

The broad Exchange index, BG40, increased by a sizable 159.19% over the period, ending the year at 518.06 points (see Chart 4). BG40 reached an all-time high of 619.99 points on 8 October.

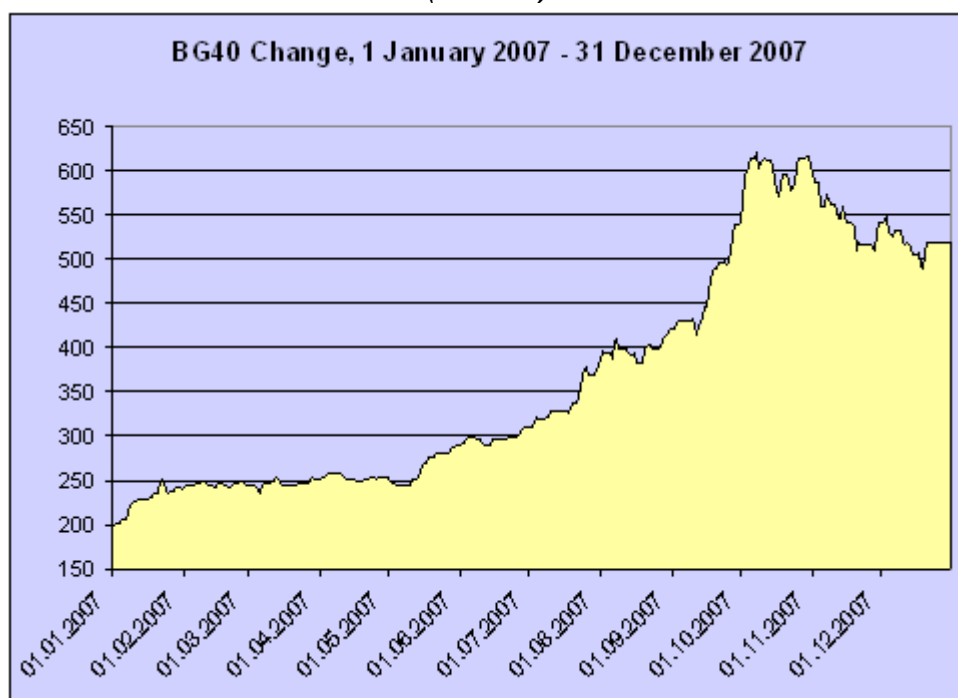
Guided by a desire to provide a more comprehensive picture of the capital market in Bulgaria, BSE-Sofia started calculating two new indices on 3 September 2007. The first index, BG TR30 (BG Total Return 30), is based on the price performance of the shares included in the index portfolio, as each issue has equal weight. The second index, BG REIT, is a sector index, showing the fluctuations in the prices of companies that operate in the field of securitisation of real estates and/or land.

(Chart 3)



BULGARIAN STOCK EXCHANGE- SOFIA

(Chart 4)



9 Comparative analysis of BSE and the Exchanges of Southeastern Europe

Capital markets in Southeastern Europe have quite a few common features: above all low liquidity, a small turnover and a weaker level of development compared to the markets in Western Europe and the US (see Table 14). Each of these stock markets lacks sufficiently high-quality companies that form a representative sample of the respective economy. This is largely due to the fact that most public companies are not listed on their own initiative but as a result of a privatization of the state-owned shareholding in them.

Considering the fact that the Balkan countries vary in the size of their economies, a comparison of their capital markets should be based on the three essential indicators characterizing each one of them: market capitalization, the ratio of market capitalization to the country's gross domestic product (GDP), and growth of indices.

The market capitalization of BSE-Sofia reached EUR 14,446 million by the end of December 2007, up 89.28% from the beginning of the year. In market capitalization, BSE-Sofia outperforms the Sarajevo and the Skopje exchanges. Regarding the share trading turnovers logged in 2007, BSE-Sofia AD ranks first, with a turnover reaching EUR 4.614 billion. The official index of the Bulgarian Stock Exchange, SOFIX, grew by 44.42% in 2007, more than the respective indices of the Bucharest, Belgrade and Sarajevo exchanges.

(Table 14)

Indicator	Bulgarian Stock Exchange	Zagreb Stock Exchange	Bucharest Stock Exchange	Belgrade Stock Exchange	Sarajevo Stock Exchange	Macedonian Stock Exchange
Number of listed shares*	380	359	157	1710	509	113
Market capitalization (EUR mln)*	14,446	47,995	23,997	16,342	7,939	1,837

BULGARIAN STOCK EXCHANGE- SOFIA

Market capitalization, change from the beginning of 2007 (EUR)	+89.28%	+118.67%	+12.06%	+95.92%	+35.80%	+119.11%
Trade in equities in 2007 (EUR mln)	4,614	2,943	4,049	1,842	653	473
Official index	SOFIX	CROBEX	BET	BELEX15	BIFX	MBI-10
Official Index, change in 2007	+44.42%	+63.23%	+22.05%	+38.39%	+26.96%	+109.07%
Instruments traded	Shares, corporate and municipal bonds, government securities, compensation instruments, rights	Shares, bonds, short-term securities	Shares, municipal bonds, rights	Shares, government securities, corporate bonds	Shares, bonds	Shares, bonds
*By 31 December 2007						

Source: Federation of Euro-Asian Stock Exchanges (FEAS); Internet sites of the stock exchanges

10 Legal Framework

10.1 Amendments to the Rules and Regulations of BSE-Sofia AD

In 2007 the Rules and Regulations were amended as follows:

- The first amendment, of 9 February 2007, intended to facilitate the arrangements for conclusion of REPO transactions on the Exchange, waived the requirement for submission to the Exchange of a certified copy of the REPO agreement between the parties.
- The amendment of 1 March 2007 made it possible to enter all orders with an allowance of three digits right of the decimal point, except orders eligible for a “Mixed Closed Auction” organized by the Exchange, where the allowance is two digits right of the decimal point.
- A second aspect of the amendment of 1 March 2007 was the introduction of a possibility to use an “Open Auction” for placement of large volumes of shares according to the procedure established by Annex 11 to the Rules and Procedure, which gives participants greater flexibility and helps reach a fair market price at the auction.
- A series of amendments, of 10 April, 17 May and 27 June 2007, introduced a procedure for cancellation of trades executed as a result of indisputable errors of brokers and established a stringent cancellation procedure. This made it possible to avoid the extremely adverse implications, including financial ones, of the execution of such trades on the investment intermediary whose broker executed the trade.
- Amendments of 10 April 2007 and 27 June 2007 brought the procedure for transacting government securities on BSE-Sofia into conformity with effective legislation, and the BNB and the Ministry of Finance were consulted in advance on the revisions. Even though these instruments are not traded for a number of reasons related to the settlement process on the Exchange, the law does allow such transactions to take place which, in turn, calls for having special regulations in place.

- The last amendment to the Rules and Regulations for 2007 brought the activity of BSE-Sofia AD into conformity with the Markets in Financial Instruments Act, which entered into force on 1 January 2008. Suspensive provisions, entering into force on 1 July 2008, were made for part of the amendments in the Rules and Regulations of the Exchange. In most general terms, the amendments applied to the following cases: (1) waiving the obligation to conclude all transactions on the Exchange; (2) eliminating block trades, since after the preceding amendments they started to be treated as equivalent to ordinary over-the-counter transactions; (3) making it possible to disclose information on transactions concluded outside a regulated market through the Exchange, according to the transparency requirements of the Markets in Financial Instruments Act; (4) waiving the obligation to register on the Exchange gratuitous transactions, as well as donations and successions, insofar as they do not constitute trade, as well as a number of technical corrections and elimination of inaccuracies.

10.2 Amendments to the COBOS Rules

The Rules for registration and use of the electronic trading system, known as Client Order-Book Online System (COBOS) were amended by decision of the Board of Directors taken on 10 April 2007. The amendments covered several aspects, with the basic idea to prevent specific types of market manipulations, which can be attributed to a large extent precisely to COBOS users. First, it is no longer possible for one person to use two different certificates for access to the system and thus executing trades without a change of the actual owner of the securities transacted.

Secondly, in order to tighten control over transactions carried out by insiders of the companies traded and over transactions by persons working under contract with investment intermediaries, the COBOS Rules now require that these circumstances be disclosed at the time of placing the order for later scrutiny by the competent officers of the Financial Supervision Commission (FSC) and of BSE-Sofia AD.

Thirdly, in order to avoid errors by COBOS users, a person can no longer submit an order if a counter-order submitted by the same person is active in the system.

Last but not least, the Board decision launched a project intended to improve the supervision system of BSE-Sofia AD. The improved system allows more detailed ex-post analysis of the transactions concluded at each trading session. If the analysis detects any signs of possible manipulation of the stock market, the transaction or transactions concerned are notified both to the investment intermediary who has concluded it and the FSC. This will strengthen the measures against potential unfair practices by clients of the investment intermediaries and will make possible efficient counter-action by members of the Exchange, as well as by BSE-Sofia AD itself and by the FSC.

The application itself became operation in the second half of 2007, and it performs an automatic daily analysis of the transactions concluded according to several indicators which, in most general terms, boil down to:

- Transactions concluded in volumes which differ from the volumes typical of the relevant financial instrument during a past period;
- Transactions concluded at prices rising or falling beyond a pre-set percentage;
- Reversal of the trend of a particular security within a trading session by a percentage exceeding a pre-set level;
- Transactions concluded by persons who have declared that they are related parties to the issuer of the securities which are being transacted or related parties to the investment intermediary with whom they place the order.

10.3 Amendments to the Rules for Calculating the Indices of BSE-Sofia AD

The BSE-Sofia AD Indexing Rules were amended in February, updating the methodology for calculation of the two indices published by the Exchange and introducing more stringent criteria for inclusion of companies, so as to improve the quality of the corporate basis underlying the indices. The new methodology for calculation of SOFIX now takes into account the market capitalization of each company, adjusted for its free float. At the

same time, the maximum weight of any company in the index is limited to 15%. This made it possible to include a broader range of Bulgarian equities in SOFIX, thus making the index more representative and eliminated the possibility for a single company to predetermine the performance of the entire index. As from 1 April 2007, SOFIX included 16 companies, and the Rules provide for regular updating every six months.

The Rules for Calculating the Indices of the Exchange were substantially revised in the second half of 2007 to meet an urgent need of their optimization. After the revision, the common rules for calculation of indices were recast as a separate document, while the individual methodology for each one of the indices was formulated in an annex to the common rules. This largely made it possible to organize logically and to optimize the rules above all with the start of calculation of new indices. Changes were also introduced in the methodology of all existing indices, replacing calculation on the basis of the weighted average price of all transactions by calculation on the basis of the price of the last trade.

The changes in the rules were largely prompted by the specific plans of the Exchange regarding the calculation of two new indices: one in which all companies represented have equal weights, and another one, reflecting the prices of special-purpose investment companies (REITs). On the one hand, REITs account for more than 90% of the new companies on the market which, combined with the dynamic development of the real estate and construction sector, makes these companies prime candidates for the launch of the first sector index of BSE-Sofia AD. For its part, a flat-weight index would complement the range of BSE indices inasmuch as the Exchange does not calculate such an index for the time being. Moreover, these indices usually enjoy robust interest from the investor community because they are suitable for structured products and for building portfolios geared to them. The actual calculation of the two indices started at the beginning of the last quarter of 2007.

11 IT Development

11.1 Implementation of a new trading system

Responding to market participants' heightened requirements to the capital market, in mid-2007 the Board of Directors adopted a decision on replacement of the existing trading platform by a state-of-the-art system. After research and analyses of offers, the Exchange opted for the Xetra® platform of Deutsche Boerse. Commencement of trading on Xetra® is planned for mid-2008.

The key advantages of the implementation of the new platform for BSE-Sofia AD can be summarized as follows:

1. The platform is powerful and fast, which has been proved by its seamless operation on the Vienna Stock Exchange, the Irish Stock Exchange and the Shanghai Stock Exchange, as well as on the European Energy Exchange in Leipzig and on the Deutsche Boerse itself. An added and extremely important advantage is the fact that after implementing Xetra®, the Bulgarian exchange will be technologically peer to some of world's largest stock exchanges.
2. Since the system will practically operate in Frankfurt, maintenance of a costly back-up at the crisis centre – a particularly pressing issue for market operators worldwide – will no longer be needed. In this case, the Exchange will have to maintain only the rest of its information systems.
3. The Xetra® system connects over 600 participants and over 5,000 brokers. This will inevitable have an especially favourable effect on the local capital market, easing considerably the access of foreign participants. The amendments to the BSE Rules and Regulations, related to associated membership and a simplified notification procedure for foreign investment intermediaries, will also be conducive in this respect. These amendments make it possible for each intermediary included in Xetra® to gain access without incurring extra expenses on communication equipment to link its information systems with the information systems of BSE-Sofia.
4. Since Deutsche Boerse is one of the largest exchanges worldwide and lists among its members all major investment banks, this is expected to make BSE-Sofia far more visible internationally.
5. Even though trading rules vary from one market to another, trading on the large exchanges is more or less

standardized because participants want to operate under the same rules wherever they trade. Therefore, the new system guarantees standardization of local rules with world trends.

6. The rigorous requirements of international participants regarding the capacity of the system will also guarantee its modernization on the local market and the availability of many more diverse functions. Thus, Xetra® supports a far larger variety of orders, which makes it possible to apply many more different strategies even in share trading, which is relatively straightforward.

11.2 Electronic system for information disclosure by public companies and other issuers of securities (EXTRI)

BSE-Sofia AD is working actively with the issuers of securities in connection with their information disclosure obligation. The experts of the Exchange provide regular advice to public companies regarding the ways, the means and the obligations to disclose information with a view to a steady improvement of the quality of the information disclosed.

The going into operation of the EXTRI integrated information disclosure system has been a special success in this respect. The system, developed jointly with the Financial Supervision Commission and Central Depository AD, was officially launched on 19 January 2007 and in the year since then more than 250 companies and issuers of securities have taken advantage of the facilities it provides for simultaneous fulfillment of issuers' obligations to disclose information to the FSC, BSE-Sofia and the Central Depository.

The revisions of the regulatory framework in 2007 in connection with the alignment of legislation to the *acquis communautaire* led to substantial changes in the disclosure of information by issuers. One particularly important change, as far as BSE-Sofia AD is concerned, was the waiver of the obligation that companies should disclose information in the first place through the Exchange. The revisions provide that public companies and issuers disclose information to the public in such a manner so as to cover simultaneously as wide a circle of people as possible on a non-discriminating basis in all Member States.

In connection with the revisions introduced and as a result of the desire of BSE-Sofia AD to offer public companies a new service for disclosure of regulated information, the EXTRI NEWS system was launched at the end of 2007. This is a specialized electronic page within the meaning given by Article 43a (2) of Ordinance No. 2 dated 17 September 2003 on Prospectuses for Public Offering of Securities and Admission to Trading on a Regulated Securities Market and on Disclosure of Information by Public Companies and Other Issuers of Securities (Ordinance No. 2). EXTRI NEWS, operated by the BSE-Sofia subsidiary Financial Markets Services EOOD, makes it possible for all public companies and issuers of securities to disclose to the public any information related to their activity at their discretion, including regulated information within the meaning given by Item 41 of §1 of the Supplementary Provisions of the Public Offering of Securities Act.

11.3 BSE's Client Order-Book Online System (COBOS)

COBOS users more than doubled in 2007, reaching 5,142 by the end of December. The number of investment intermediaries offering the system to their clients grew from 52 to 53 during the period under review.

The orders submitted through COBOS in 2007 were by 144.35% higher than the orders submitted in 2006. At the same time, the total number of orders entered in 2007 showed an increase of 96.64%. The share of the turnover generated through the system grew as well, from 10.76% to 11.59% of the total turnover on the Exchange, but these values are evidently still rather low, mostly considering that COBOS is predominantly used by individual investors.

The 1,057,476 orders submitted through the COBOS system accounted for 71.06% of the total number of orders entered during the period under review, and 389,784 transactions were concluded on the basis of these orders (79.47% of the total number of transactions concluded for the period). By comparison, the orders submitted through COBOS in 2006 accounted for 57.19% of the total number of orders, and the transactions concluded represented 66.26% of the total number of transactions for the period).

BULGARIAN STOCK EXCHANGE- SOFIA

The number of transactions concluded through COBOS in 2007 increased by 175.63% from 2006, while the total number of transactions concluded rose by 129.81% during the same period.

An average 1,550.17 transactions per trading session were concluded through COBOS in 2007, up from 567.93 transactions in 2006.

The convenience that the COBOS system offers its users: to trade on the Exchange on their own from their personal computers, and thus conclude transactions faster and react more flexibly to the market behaviour, and last but not least, to reduce transaction expenses, make the system particularly attractive and increasingly preferred.

The facilitation of the investment process, which COBOS ensures, is of key importance for attracting more investors to the market. In most cases, these are people who treasure their time and seek fast and convenient solutions. The increased number of investors has a direct bearing on an improvement of the liquidity of Bulgaria's capital market.

In this connection we should mention the steps that BSE-Sofia AD took for an improvement and innovation of the system in 2007. The improvements made were intended to enhance the operational quality of the system, and the most popular innovation was the possibility that investors received to declare close links with a particular intermediary or issuer.

The substantial increase of the number of COBOS subscribers and the heightened trading activity through the system in 2007 calls for additional technical solutions to ensure its normal functioning. The integration of COBOS into the new trading system Xetra, which is expected to become operational in mid-2008, is another important development.

11.4 BSE Online

Financial companies make their own contribution to an improvement of market liquidity and competition by developing their own platforms for direct access to the trading system on the basis of the BSE Online service provided by the Exchange.

BSE Online is a supplementary module to the client terminal of the trading system, making the trading system and the information generated by it accessible through applications developed by the Exchange members. More specifically, the users of the system gain real-time access to the entire trading information, including orders entered and transactions concluded by the members, the list of registered issues of securities, as well as access to the News section of the trading system, including the value of the indices calculated by the Exchange. Besides this, the developed applications enable BSE Online users to enter orders on behalf of their clients after a confirmation by a stockbroker, which obviates some limitations of the standard exchange terminal.

The availability of alternative direct trading systems affects favourably the development of the market, in terms of increasing competition and seeking to offer better products.

11.5 Calculating financial ratios of public companies

A database, which receives data from issuers' financial statements, was developed during the first half of 2007. The statements submitted through EXTRI can enter the system directly. A procedure has been created to calculate key financial ratios of public companies and to store historical information about ratios in previous periods. All available information is displayed on the BSE-Sofia Internet site. The following set of ratios is calculated on the basis of consolidated or non-consolidated statements, as appropriate:

- Price-To-Sales Ratio
- Price-To-Book Ratio
- Price-To-Earnings Ratio
- Return On Assets
- Return On Equity
- Earnings before interest and tax (EBIT)

- Return On Assets Using EBIT
- Price-To-Earnings Ratios of the main indices
- Price-to-Book Ratios of the main indices
- Price-To-EBIT Ratio
- Return On Equity Using EBIT
- Debt-to-Equity Ratio
- Liquidity Ratio
- Assets Turnover Ratio

12 Corporate Governance Code

Improvement of the quality of corporate governance of public companies in Bulgaria has always been among the key priorities of BSE-Sofia. It was precisely with a view to enhancing the confidence of national and international investors and of the general public at large in the management and supervision of public companies in Bulgaria that in 2006 the Exchange elaborated and adopted a Code of Corporate Governance, which entered into force at the end of January 2007.

The Code integrated the basic Principles of Corporate Governance of the Organisation for Economic Co-operation and Development, as well as the best practices established in international and nationally recognized good governance standards, whose application would have a largely favourable impact on the business environment in Bulgaria.

The draft was also coordinated with representatives of the Center for Economic Development, the Association of Bulgarian Investor Relations Directors, the Bulgarian Investor Relations Society, the Bulgarian Industrial Capital Association and active and interested public companies.

The Code of Corporate Governance of BSE-Sofia gave business above all a benchmark to determine its state and readiness in respect of applying the basic generally accepted principles of corporate governance. BSE-Sofia provided Bulgarian companies with an instrument to improve their corporate governance practices so as to enhance their competitiveness on the European market and win the confidence of investors and creditors.

Parallel to drafting its own Code, BSE-Sofia was among the initiators in the implementation of a major project of national importance: the elaboration of a National Corporate Governance Code.

The key participants in the project included the International Finance Corporation, the Organisation for Economic Co-operation and Development, the Center for Economic Development, the Association of Investors, the Association of Bulgarian Investor Relations Directors, the Bulgarian Investor Relations Society, the Financial Supervision Commission, and representatives of the academic community.

The National Corporate Governance Code was formally presented to the public on the tenth birthday of the Exchange, 10 October 2007. After the adoption of the National Corporate Governance Code, it superseded the theretofore effective Code of Corporate Governance adopted by BSE-Sofia AD.

BSE-Sofia regards the National Corporate Governance Code as a step forward along the road to establishment of modern rules and standards of governance of public companies in Bulgaria.

To boost the competitiveness of the market as a whole and to attract foreign investors, it is particularly important that the companies which are traded on BSE-Sofia have a clear vision and development strategy, as well as a defined corporate social responsibility policy. It is precisely for this reason that the efforts to promote the principles of corporate governance among public companies will remain among the key priorities in the activity of the Exchange.

13 Implementation of the Development Programme of the Exchange

In 2007 BSE-Sofia continued work on the key priorities laid down in the Development Programme of the Exchange, adopted at the beginning of 2006. The Development Programme of the Exchange covered the following priorities: attraction of issuers; general promotion of the Exchange; improvement of corporate

governance practices; new products and markets; organizational and structural improvement of BSE-Sofia; improvement of work with members: exchange of information, feedback, technology, reduction of settlement risk and improvement of techniques for finalization of transactions; tax incentives.

13.1 Attraction of issuers

In 2007 the Bulgarian Stock Exchange-Sofia pressed ahead with its strenuous efforts to attract new issuers to the Exchange. Three regional roundtables were organized and held during the year: in Veliko Turnovo in February, in Plovdiv in June, and in Stara Zagora in November. Representatives of non-public and public companies, investment intermediaries, banks, media etc. attended those roundtables. Lecturers of BSE-Sofia and the Financial Supervision Commission presented to the audience the capital markets and the stock exchange, and representatives of public companies familiarized them with the benefits of a company being public and of financing through the capital market.

The idea of these roundtables was to cover the companies of Bulgaria's North Central, South Central and Southeastern Planning Regions. More than 270 participants in aggregate attended the forums, and 65 non-public and public companies were represented. The non-public companies' representatives showed interest in the questions discussed: about the public status and its advantages, as well as in the opportunities of financing through the capital market.

Part of the companies that attended the three regional roundtables have already gone public and their shares were listed for trading on the Bulgarian Stock Exchange-Sofia. These are Trace Group Hold AD-Stara Zagora and CBA Asset Management AD-Veliko Turnovo, and Darvoobrabotvane-VT AD has already received confirmation of a prospectus for an offer to the public of shares. Several other companies have expressed willingness to go public and are working on this.

During the year, the activity of the Attraction of Issuers Department included identifying companies appropriate for listing, organizing appointments with their management, and explaining the advantages of companies going public. Individual meetings with representatives of venture capital funds, as well as with particular companies, were held in 2007.

Several meetings were also held during the year with representatives of foreign companies that are already doing business in Bulgaria. They were familiarized with the activity of BSE-Sofia and with the capital market in the country.

The success of the effort to attract new issuers to the Exchange was evident from the results achieved in this sphere, which ranked BSE-Sofia AD among the European leaders in the number of new public companies.

13.2 General promotion of BSE-Sofia AD

The active work in this area, which started in 2006, continued last year as well. Representatives of the Exchange participated regularly in seminars, conferences, discussion forums and roundtables on the development of the economy and the capital market. The Exchange was periodically presented in the media through interviews and special-interest items. In 2007, too, the principal Bulgarian economic media, non-economic media, as well as foreign agencies and media continued to publish the results of the trading sessions on the Exchange.

Further periodic meetings and presentations of the activity of the stock exchange to undergraduates and schoolchildren specializing in economics were held last year. These meetings are part of the effort to improve the investment culture of individual investors in this country. Also to this end, the Exchange donated training software for trade in financial instruments to seven higher educational establishments.

The foreign road show abroad, co-organized by BSE-Sofia and the Swiss-Bulgarian Chamber of Commerce, took place in Zurich and Lugano, Switzerland. Senior executives of Swiss banks and investment companies attended the presentations in May. The participants in the road show showed a very strong interest in the Bulgarian capital market and especially in the COBOS system. At the same time, BSE-Sofia representatives are ever more frequently invited to deliver lectures at leading international forums of the investment industry,

which acknowledges the experience amassed by the Exchange not only locally and regionally but on a global scale as well.

The traditional presentations of new companies listed for trading on BSE-Sofia AF in 2007 were an important aspect of the promotion of the capital market. Thirty-three share- and bond-issuing companies were formally presented during the year, and a total of 14 formal openings of trading sessions attended by representatives of the companies were organized to this end.

Promotion of the capital market in Bulgaria through unconventional events continued, with a ski race for the BSE-Sofia AD Cup, organized for a second year running and held at the Borovets Resort on 23 March.

13.3 Information services

Responding to the growing interest in the Bulgarian capital market from both local and foreign investors, BSE-Sofia works for a steady improvement of the information services provided. Boosting the image of the Exchange in the financial community is central to this effort, and the principal vehicle of achieving this object are the additional contracts concluded with news agencies providing information on exchange trading. Parallel to that, in 2007 certain information started to receive and, respectively, disseminate information in real time, having previously received a delayed or summarized information feed.

In addition, on its Website BSE-Sofia AD is trying to offer investors the most useful information available about the public companies traded. Thus, a number of improvements were made in market statistics in 2007, such as calculation of adjusted past prices as a result of corporate events, as well as entirely new projects, like calculation of a number of financial ratios for the companies traded.

14 International activities and external relations

The strong dynamism of the international activity of BSE-Sofia was maintained in 2007. The interest in this country's capital market grew tangible during the first year of Bulgaria's EU membership. Internationally, the admission of BSE-Sofia as a full member of the Federation of European Stock Exchanges (FESE), which affiliates only regulated markets in the EU recognized by the European Commission, came as a major recognition for the achievements of the Exchange.

Mr Massimo Capuano, President of Borsa Italiana, Mr Spyros Kapralos, President of the Athens Stock Exchange, Mr Ludwik Sobolewski, President of the Warsaw Stock Exchange, and Mr Peter Koblic, President of the Prague Stock Exchange, visited Sofia at the beginning of the year. They all declared their willingness to strengthen bilateral cooperation and expressed interest in future strategic partnership with BSE-Sofia. Representatives of the Association of Nordic and Baltic Exchanges (OMX) paid two visits to Bulgaria, on 3 and 31 May, to discuss future cooperation with the Exchange.

The vigorous enhancement of regional contacts continued, with representatives of the Exchange taking part in a number of important forums in the neighbouring countries. BSE-Sofia was represented at a roundtable with the Greek Government, organized by *The Economist* in Athens in March. The Exchange also took part in a conference entitled "Hellenic-Bulgarian Economic and Trade Cooperation – Challenges and Opportunities for Development and Investment" and in the Third Hellenic-Bulgarian Business Forum, both held in Athens in spring 2007, as well as in two other regional forums: the 8th Annual Conference of the Macedonian Stock Exchange in Ohrid and in the 4th SEE Financial Conference in Bucharest.

BSE-Sofia was invited to take part in the World Exchange Congress in Dubai, UAE, 26-27 March. Representatives of the Exchange also attended the Annual Conference of the International Organization of Derivatives Markets and Clearing Houses in Mexico City.

Following the decision of the BSE-Sofia Board of Directors on pursuit of strategic partnership with Deutsche Boerse, the contacts between the two exchanges strengthened appreciably in the second half of 2007. On 30 October BSE-Sofia AD and Deutsche Boerse AG formally signed a Framework Agreement on implementation of the Xetra® trading system at the BSE. In this connection, the expert contacts between the two exchanges

BULGARIAN STOCK EXCHANGE- SOFIA

deepened. The Framework Agreement covers the general conditions and procedure for implementation of the new trading platform at the BSE, as well as further partnership between the two exchanges.

Representatives of the Exchange participated in the German Capital Market Forum in November. During the same month, the Exchange was represented at a forum on “Key Challenges to Financial Regulators and Stock Exchanges,” held in Vienna, as well as at the 6th International Financial Conference, which took part in Belgrade.

BSE-Sofia sent its representative to the observances of the 125th anniversary of the Bucharest Stock Exchange.

15 Shareholders structure of BS-Sofia AD

On the basis of official records, as at 31 December 2007, the shareholders of the Exchange fell into the following five principal categories:

(Table 15)

Shareholder category	Number of shares	%
Ministry of Finance	2,580,000	43.97
Legal persons	468,840	7.99
Natural persons	350,200	5.97
Institutional investors	398,400	6.79
Investment intermediaries and commercial banks	2,070,420	35.28
Total	5,867,860	100.00

16 Members of BSE-Sofia AD

As at 31 December 2007, 79 licensed investment intermediaries and commercial banks were members of the Exchange.

(Table 16)

WOOD & Company Financial Services, a.s.	Inv. Intermediary Populiarna Kasa 95 AD
Inv. Intermediary ABV Investment EOOD	Inv. Intermediary First Financial Brokerage House OOD
Inv. Intermediary Aval IN AD	Inv. Intermediary Real Finance AD
Inv. Intermediary Argo Invest AD	Inv. Intermediary CEE Securities AD
Inv. Intermediary Balkan Investment Company AD	Inv. Intermediary Somony Financial Brokerage OOD
Inv. Intermediary Balkan Consulting Company IP EAD	Inv. Intermediary Sofia International Securities EOOD
Inv. Intermediary BBG Simex – Bulgaria OOD	Inv. Intermediary Standart Investment AD
Inv. Intermediary BG Proinvest AD	Inv. Intermediary Status Invest AD
Inv. Intermediary BenchMark Finance AD	Inv. Intermediary STS Finance AD
Inv. Intermediary Beta Corp AD	Inv. Intermediary TBI Invest EAD
Inv. Intermediary Bora Invest AD	Inv. Intermediary Favorit AD
Inv. Intermediary Bul Trend Brokerage OOD	Inv. Intermediary Factory AD
Inv. Intermediary Bulbrokers AD	Inv. Intermediary FBH Sofia Invest Brokerage AD
Inv. Intermediary Bulex Invest AD	Inv. Intermediary Fico Invest OO
Inv. Intermediary Bulfin Invest AD	Inv. Intermediary FINA-S AD

BULGARIAN STOCK EXCHANGE- SOFIA

Inv. Intermediary Varchev Finance EOOD	Inv. Intermediary Financial House Ever AD
Inv. Intermediary VIP-7 AD	Inv. Intermediary Ug Market AD
Inv. Intermediary D.I.S.L. Securities AD	CB Allianz Bulgaria AD
Inv. Intermediary Delta Stock AD	CB DSK Bank EAD
Inv. Intermediary DZI Invest AD	CB Piraeus Bank Bulgaria AD
Inv. Intermediary Dealing Financial Company AD	CB BNP - Paribas Bulgaria AD
Inv. Intermediary Euro-Finance AD	CB Bulgarian American Credit Bank AD
Inv. Intermediary Euro Garant AD	CB Emporiki Bank – Bulgaria EAD
Inv. Intermediary Eurodealing AD	CB Investbank AD
Inv. Intermediary Elana Trading AD	CB ING Bank - Sofia Branch AD
Inv. Intermediary Zagora Finakorp AD	CB International Asset Bank AD
Inv. Intermediary Zlaten Lev Brokers OOD	CB Corporate Commercial Bank AD
Inv. Intermediary Intercapital Markets AD	CB MKB Unionbank AD
Inv. Intermediary Capital Engineer Project AD	CB United Bulgarian Bank AD
Inv. Intermediary Capital Finance OOD	CB Municipal Bank AD
Inv. Intermediary Capman AD	CB First Investment Bank AD
Inv. Intermediary Karoll AD	CB Raiffeisenbank (Bulgaria) EAD
Inv. Intermediary KD Securities EAD	CB Economic & Investment Bank AD
Inv. Intermediary Capital Markets AD	CB Tokuda Bank AD
Inv. Intermediary KM Invest EAD	CB D Commerce Bank AD
Inv. Intermediary McCup Brokers AD	CB UniCredit Bulbank AD
Inv. Intermediary Makler 2002 AD	CB Central Cooperative Bank AD
Inv. Intermediary Metrik AD	CB Teximbank AD
Inv. Intermediary Naba Invest A	CB Eurobank EFG Bulgaria AD
Inv. Intermediary Positiva AD	

As at 31 December 2007, 141 stockbrokers were registered at BSE-Sofia AD. Forty-six stockbrokers were admitted between 1 January 2007 and 31 December 2007, and the trading rights of 32 stockbrokers were terminated during the same period.

17 Financial position of BSE-Sofia AD

The financial statements of Bulgarian Stock Exchange-Sofia AD have been prepared according to the accounting policies adopted by the Exchange and provide a fair view of the company's financial standing and performance. The principal revenue and expense items are compared briefly and their change from the previous year is analyzed below, in Tables 17 and 18.

The accounting profit for 2007 is reported at BGN 5,837,000. After deduction of the income tax due at the amount of BGN 586,000, the net profit for the year is BGN 5,251,000.

17.1 Income from Operating Activities of the Exchange for 2007

(Table 17)

Item	2007	2006	Change
------	------	------	--------

BULGARIAN STOCK EXCHANGE- SOFIA

Commissions for transactions concluded on the Exchange (BGN '000)	8,189	3,994	105.03%
Fees for registration of companies (on Official and Unofficial Market) (BGN '000)	387	330	17.27%
Internet trading fees and online trading fees (BGN '000)	362	179	102.23%
Information service fees (BGN '000)	251	143	75.52%
Financial sanctions on Exchange members (BGN '000)	194	48	304.17%
Membership fees (present and remote trading) (BGN '000)	42	45	-6.67%
PROCEEDS FROM SALES (BGN '000)	9,425	4,739	98.88%
Other operating income (rent, tenants maintenance, proceeds from seminars, examinations of brokers) (BGN '000)	131	100	31.00%
TOTAL INCOME (BGN '000)	9,556	4,839	97.48%

Year on year, the income of the Exchange grew by nearly 100%, reaching BGN 9,556,000. As a result of the policy conducted by the Exchange to attract issuers and encourage investor interest in the capital market, BSE-Sofia managed to achieve substantial increases in almost all operating income items, as evident from Table 17. The increase in income was above all due to a 105% growth of income from commissions for transactions concluded on the Exchange, which are essential sources of income, holding 85 per cent of the total income. This substantial growth resulted from the improved liquidity and increased trading activity of the Exchange compared to the previous year.

The only income item that showed a decline from 2006 are the membership fees collected, mostly as a result of the reduced number of investment intermediaries following the consolidation of some commercial banks which are members of the Exchange.

The income from fees for registration of companies on the Official and Unofficial Market grew by 17.27% in 2007 compared to 2006. This increase was due to the increased interest of issuers in the Official Market of the Exchange, as well as to the numerous public offerings realized on the Exchange.

The growth of financial sanctions came as a result of the sanctions imposed on members for delays of transactions concluded on the Exchange, on the one hand, and a substantial improvement of the supervisory functions of the Exchange, on the other.

Income from Internet trading and online trading on the Exchange grew by 102%, reaching BGN 362,000 at the end of 2007. This growth can be attributed to the increased number of COBOS users, as well as to the fees collected from Exchange members for use of the BSE Online module.

BULGARIAN STOCK EXCHANGE- SOFIA

17.2 Operating Expenses of the Exchange for 2007

(Table 18)

Item	2007	2006	Change
Materials and consumables used	103	72	43.06%
Hired services	537	436	23.17%
Personnel costs (salaries, Board of Directors remunerations, social and health insurance and other social security payments)	2,698	2,027	33.10%
Depreciation and amortization expense	322	270	19.26%
Other operating expenses	364	172	111.63%
OPERATING EXPENSES	4,024	2,977	35.17%
PROFIT FROM OPERATIONS	5,532	1,862	197.10%
Financial income/expenses, net	305	103	196.12%
PROFIT BEFORE TAX	5,837	1,964	197.20%
Profit tax expense	-593	-295	
Deferred taxes	7	-3	
NET PROFIT FOR THE YEAR	5,251	1,667	215.00%

In 2007 total operating expenses increased by 35% compared to 2006. This increase of expenses is quite natural and is warranted by the activities performed, which generated a nearly 100% increase in income.

The larger expenses on materials and consumables and on hired services were due mainly to the rise in prices and to the increased consumption of the essential goods and services that the Exchange uses, the prices of electricity and heat, as well as the expenses incurred on repair of the premises of the Exchange.

The increased amount of depreciation followed the increased amount of tangible fixed assets, and the increased personnel costs were due to the larger number of Exchange employees compared to the previous year. The increase in expenses on remunerations of the members of the Board of Directors was due to the higher average wage for 2006, on which the monthly remuneration of the members is based according to a Shareholders' General Meeting resolution of 1997.

The increase of the "Other operating expenses" item was due mainly to the donation of training software for transactions in financial instruments, made to seven higher educational establishments. The expenses on employees' business trips for the preparation and implementation of the new trading system of the Exchange are also reported under this item.

17.3 Assets as of 31 December 2007

As of 31 December 2007, the assets of BSE-Sofia AD were structured as follows:

BULGARIAN STOCK EXCHANGE- SOFIA

(Table 19)

	At 31 December 2007	At 31 December 2006
Non-current assets	4,138	3,861
Current assets	9,050	4,694
Total assets	13,188	8,555
Non-current liabilities	42	-
Current liabilities	1,445	580
Total liabilities	1,487	580
Equity	11,701	7,975

By managing the capital, the company seeks to create and maintain possibilities to continue as a going concern and to ensure the proper return on shareholders' investments and economic benefits to other parties interested and involved in its business, as well as to maintain an optimum capital structure so as to reduce capital costs.

In 2007, the strategy of the company management is to use only self-financing, through funds generated by the company's own economic activity, without resorting to debt financing, and this strategy has remained unchanged since 2006.

The company monitors on a current basis the availability and structure of its capital. Typically, it traditionally finances its activity by its own generated profits and through its shareholders, without using debt capital.

In the course of its ordinary activities, the company may be exposed to various financial risks, the most important of which are: market risk (including currency risk, the risk of changes in fair value and price risk), credit risk, liquidity risk, and interest-bearing cash flow risk. Overall risk management is focused on forecasting the results of definite areas of the financial markets so as to minimize potential adverse effects, which could affect the financial performance and position of the company. On a current basis, financial risks are identified, measured and monitored with the help of various control mechanisms introduced to determine adequate prices of the services and cost of debt capital, as well as to adequately assess the market circumstances of the investments made by the company and the form of holding the idle liquid funds while avoiding undue concentration of any particular risk exposure.

Risk management at the company is carried out on a current basis by the executive management of the company according to a policy determined by the Board of Directors. The Board of Directors has adopted principles of overall financial risk management, on the basis of which particular procedures have been developed for management of the individual specific risks: currency risk, price risk, credit risk and liquidity risk, and risk associated with the use of non-derivative instruments.

17.4 Market risk

17.4.1. Currency rate risk

The company is not exposed to a currency risk because all its operations and transactions are denominated in Bulgarian levs and/or euro, and the euro-lev exchange rate is fixed by law.

17.4.2. Price risk

The company is not exposed to a price risk in the sense of a risk of adverse changes in the prices of the services

subject to its operations because they are specific to a particular range of clients and there are established procedures for periodic adjustment to market changes (Note 28 b to the annual financial statement).

17.5 Credit risk

Credit risk is the risk that any of the company's counterparties will not be in a position to discharge its obligations to the company to the full amount and at the due date. Trade receivables are shown on the balance sheet at net amount, less allowances provided for doubtful receivables. Such allowances are made wherever and whenever events giving rise to losses from bad debts according to past experience are identified.

The company is not exposed to a significant concentration of credit risk because the Exchange provides services of a specialized type to its clients, which are mostly investment intermediaries and banks in Bulgaria. These clients have a good financial standing, a long history and business cooperation with the Exchange, and do not commit breaches in the compliance with the credit terms according to the Rules and Regulations of BSE-Sofia regarding the payment of the fees due for services provided by the Exchange.

The company policy is to perform its sales under prompt cash payment terms – this applies mostly to exchange trading fees, which are payable within two days at the settlement of the transaction. Collection of receivables is controlled strictly by the Registrations Department, the Sales Department and the Finance Department, according to the company's adopted policy. To this end, clients' outstanding payments as well as the payments received are examined on a daily basis, and reconciliation and analysis are performed. The fees for clients' initial registration and registration maintenance are paid before clients are admitted to active trading.

17.6 Liquidity risk

The Exchange conducts a conservative policy of liquidity management, through which it steadily maintains an optimum liquid reserve of cash and an adequate ability to finance its economic activity, it monitors constantly its actual and estimated cash flows by forward periods and maintains an equilibrium between the maturity limits of the company's assets and liabilities. The company generates and has at its disposal sufficient working capital and does not need borrowings for executing its day-to-day operations. The Finance Department monitors on a current basis the maturity and makes sure that payments are effected promptly, with up-to-date information on the cash in hand and the forthcoming payments being maintained daily. Idle resources are invested in mortgage bonds and in time deposits with banks, normally maturing within one to six months, which are regarded as relatively low-risk investment, and generate a relatively high yield (Note 28 to the annual financial statement).

17.7 Interest-bearing cash flow risk

Generally, the company owns a substantial portion of interest-bearing assets: investments in mortgage bonds and cash on current accounts and time deposits. Income and operating cash flows are stable and relatively secured against fluctuations of market interest levels, insofar as the bulk of the interest-bearing assets (euro-denominated mortgage bonds) have a fixed interest rate, which remains invariable until maturity of the bonds in 2009, and the cash in levs and euro held at time deposits with banks also bear a fixed interest, which may be changed upon re-negotiation of the deposit, after the expiry of its initial period.

(Table 20)

	31 December 2007			31 December 2006		
	Interest		Interest-free	Interest		Interest-free
	<i>Fixed interest rate</i>	<i>Floating interest rate</i>		<i>Fixed interest rate</i>	<i>Floating interest rate</i>	
	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	<i>BGN '000</i>	
Financial assets	8,735.00	1,178.00	28.00	4,419.00	1,151.00	10.00
Financial liabilities	-	-	779	-	-	336.00
TOTAL	8,735.00	1,178.00	807.00	4,419.00	1,151.00	346.00

In 2005, by resolution of the Shareholders' General Meeting, the Exchange and Central Depository AD incorporate a joint venture: Financial Markets Services OOD, with an authorized capital of BGN 80,000. The objects of the company are design, development and maintenance of information systems and products related to the market of securities and financial instruments, development of information technologies, supply, installation and assembly of information systems, hardware and software maintenance, consulting and training. After completion of the procedure of acquiring the participating interest of Central Depository AD in the joint venture in 2007, the Exchange became a sole owner of Financial Markets Services EOOD. By 31 December 2007, the capital of the company was fully paid-up.

The other minority interests held by the Exchange in the capital of Central Depository AD (3%), SFB Capital Markets AD (15%) and the Bulgaria Investment Forum Association (5%) did not change in 2007).

18 Overall Strategy for Development of BSE-Sofia AD in the 2008-2010 Period

In early 2008, the Management of BSE-Sofia AD started the elaboration of a Strategy for Development in the 2008-2010 Period and a Business Plan for its operations. The principal objective set in the Strategy and the Business Plan is to enhance the liquidity of the market, and the following key priorities in the operation of the Exchange are mapped out for the attainment of this objective:

18.1 Technological renovation

18.1.1 Implementation of a new trading platform: Xetra®

Implementation of Xetra®, the platform used by the Frankfurt Exchange, as a basic trading system, is a key priority in the activity of BSE-Sofia AD in the short term. Commencement of trading on Xetra® is planned for mid-2008.

The implementation of the new trading system faces BSE-Sofia with the following challenges:

- ensuring a seamless transition from the present trading system to Xetra®;
- adapting COBOS for operation with Xetra®;
- increasing the volume of business through the new trading system.

18.1.2 Renovation of the technologies and the technological infrastructure of the Exchange

In line with the market situation, the state of the capital market and the expansion of its business and of the services it provides, BSE-Sofia will continue to invest in a state-of-the-art technological infrastructure, which is a key factor guaranteeing the trouble-free operation of the Exchange under heavier workloads and with an ever increasing market liquidity and participants' activity. Elaboration of measures and rules for management of the risk of failure and ensuring a stable control of the technical operations of the trading system will be essential in this connection.

18.1.3 Optimization of the COBOS system

In connection with the changes in the market brought about by the new functions and services offered by BSE, as well as in connection with the growing costs of maintenance of the COBOS system, solutions will be sought and action will be taken to ensure the trouble-free operation of the system. Various options about the future functioning of the system will be discussed with representatives of the investment intermediaries, including the possibility to outsource its operation to the users (the members of the Exchange) on the basis of licensing.

18.2 Increase of the number, volume and diversity of the financial instruments traded on BSE-Sofia

Increase of the number, volume and diversity of the financial instruments traded on the Exchange is a major strategic goal of BSE-Sofia AD in the medium term.

18.2.1 Attraction of issuers

The strategic goal set to promote BSE-Sofia achieved excellent results over the past two years. The Exchange managed to attract the interest of the Bulgarian business community to the opportunities for financing through the capital market and, along with that, called the attention of the general public to the prospects offered by the public-company status. The personal contact between the experts of the Exchange, the representatives of the investment intermediaries and the business community proved vital for some of the companies to make a decision on listing on the Exchange. The success of the public offerings performed in 2007 received extensive coverage in the mass media, which additionally attracted many new unprofessional investors as individual participants.

Regardless of the results achieved, the attraction of new investors remains a key priority of BSE-Sofia. The changed market situation, however, requires a change in the approach and form of achieving this goal. To this end, BSE-Sofia will continue to analyze, on a regular basis, the companies that possess the potential to go public and to maintain an up-to-date database of potential issuers. The emphasis will shift to the preparation of regular analyses of promising economic sectors (the potential issuers there), as well as to an expansion of the sectoral representativeness of companies on the Exchange.

Private equity and venture capital funds will be another key target of analysis and communication, as it will be through them that BSE-Sofia will be seeking potential issuers.

The Exchange will also work actively together with representatives of the relevant competent authorities in respect of the possible privatization of the main local monopolies through the exchange, by participating in working groups, assisting consultants in the elaboration of privatization concepts etc.

18.2.2 Attraction of foreign issuers for dual listing on the Exchange

Another aspect regarding new issuers is the attraction of foreign issuers for dual listing for trading on BSE-Sofia as well. Bulgaria's EU membership is a prerequisite for the integration of BSE-Sofia into the pan-European capital market. The harmonization of legislation in this sphere, the introduction of a single passport for issuers

and the relaxed notification procedure largely facilitate the dual listing of EU companies on the Bulgarian exchange.

18.2.3 Encouraging the issuing of debt securities

In attracting new issuers and diversifying the financial instruments traded, the Exchange prioritizes the attraction of bond issuers. Special efforts have to be made to promote debt instruments among companies (public and non-public). Particular attention should be paid to convertible bonds as a means of increase of capital, which is very popular in the countries with a mature capital market. The Exchange will also make efforts, jointly with the pension funds, to promote the issuing of municipal bonds as a form of additional financing of municipal budgets in Bulgaria.

18.2.4 Encouraging public companies to raise additional capital through the Exchange

Special efforts are needed to promote the ways and means of corporate capital increase through the Exchange and to encourage the taking of actions in this direction. In this connection, it is critical to provide the issuers' managing bodies with more information regarding the corporate moves that can be taken to this end.

18.2.5 Changing trading rules for the least liquid companies

In the medium term, the efforts of the Exchange will target optimization of trading in the least liquid companies on the market. Feasible solutions will be sought at the statutory and technical level for a change of the arrangements for trading in their securities. The solutions in question involve revision of the criteria for listing of issuers on the lowest segment of the Unofficial Market and including in the BSE-Sofia Rules and Regulations a possibility to delist companies if they do not meet these criteria.

18.2.6 Introduction of new financial instruments

Introduction of new financial instruments on the market is another medium-term objective that BSE-Sofia sets itself. In this respect, the efforts will focus, on the one hand, on attracting issuers of various types of securities which can be traded considering the present state of the market infrastructure and, on the other hand, on taking steps towards looking for partners and/or solutions to organize clearing and settlement processes making it possible to trade in derivatives.

18.3 Attraction of more local and foreign investors

Attraction of investors remains a major guideline in the future strategic development of BSE-Sofia. The prime focus will be on the attraction of foreign investors, including portfolio investors, with a long-standing investor interest in the Bulgarian market. In this respect, the implementation of the new trading system Xetra® will be instrumental in attaining the objective set.

Another means to this end will be the participation and organization of international forums and conferences, where the state and the prospects of the Bulgarian capital market will be presented. Presentations of leading Bulgarian companies to foreign investors will also be organized in various forms. In connection with the promotion of the Bulgarian market abroad, the Exchange will aspire to greater transparency and improvement of the quality of the information provided.

At the local level, the promotion of the capital market as an investment alternative is of prime importance for the future development of BSE-Sofia. In this respect, special efforts will be made for the promotion of the capital market among non-professional investors. The arrangement of training, the dissemination of training materials, a greater openness to the media, as well as diversification and improvement of the quality of the

information services provided by BSE-Sofia will be the main areas of work for achievement of this objective. Improvement of the effectiveness and quality of the technical logistics of trading will be essential for the attraction of investors to the market. In this connection, a uniform strategy for the future of the COBOS system has to be elaborated and coordinated with the members of the Exchange.

18.4 Improvement of the quality of corporate governance

BSE-Sofia will continue to initiate and participate in programmes and undertakings related to the corporate governance of public companies in Bulgaria. Encouraging the issuers to apply the principles enshrined in the National Corporate Governance Code and more stringent governance standards is of paramount importance for an enhancement of the image of the Bulgarian capital market, for building investors' confidence and for the attraction of foreign investors.

18.5 Improvement of trading conditions

18.5.1 Guarantee Fund

Restructuring of the Guarantee Fund and formulation of an effective working mechanism for its operation is a medium-term strategic priority of the Exchange. In this connection, the Exchange count on the active cooperation of its members, the Bulgarian Association of Licensed Investment Intermediaries, Central Depository AD, the Association of Banks in Bulgaria, and the Financial Supervision Commission with a view to implementing this project which is crucial for the stability of the market. The creation of a working mechanism for the Guarantee Fund is particularly important in respect of the foreign investors showing interest in the Bulgarian capital market. The existence of an effective mechanism for finalization of transactions will affect favourably the image of BSE-Sofia and is a means of attracting foreign investors.

18.5.2 Margin Purchases and Short Sales

BSE-Sofia will be committed and will be actively involved in the process of seeking solutions to the introduction in practice of margin purchases and short sales on the capital market. The diversification of the "tool kit" of mechanisms available to participants for implementation of their strategies is especially important for the attractiveness of a market and is a factor of attracting a larger number of investors.

18.6 Development of the information services of the Exchange

BSE-Sofia will continue to attach special importance and to prioritize the provision of a greater diversity of information products and services. In this connection, along with the conventional channels of distribution of information services, the search for additional channels through strategic partnerships with local and foreign organizations will be particularly important.

The Exchange realizes the strategic significance of the development of its subsidiary Financial Markets Services EOOD (FMS), through which the Exchange will be providing various information services. The regular provision of new and high-quality information products matching the state of the market and the needs of investors will be a key priority in respect of the operation of FMS.

18.7 Communication and PR Strategy

As an extension of its capital market promotion policy, the Exchange is planning to optimize its Communication Strategy, which will seek to assert the public understanding of the leading role of BSE-Sofia in respect of the capital market.

BULGARIAN STOCK EXCHANGE- SOFIA

In future the Exchange will continue to seek a greater openness to the media, a regular presence in the media, including the non-specialized ones, and promotion of the operation, advantages and prospects of the securities market.

18.8 International cooperation

Broadening international contacts and relations with other exchange institutions and organization on a regional as well as Europe-wide and global scales figures among the important priorities in the activity of BSE-Sofia. As a full member of the Federation of European Stock Exchanges, BSE-Sofia will be expanding its active work on projects with representatives of leading European exchange operators.

Active cooperation among exchanges acquires particular relevance in the application of MiFID within the context of the expected changes regarding trading. Sharing experience is of special importance for regulated markets in their effort to remain competitive liquidity centres.

Assisting exchanges in the region is another essential priority, targeting an increase of the attraction of capital markets in Southeastern Europe at large to a larger number of foreign investors.

In this connection, BSE-Sofia tends to get actively involved in the process of integration and globalization of capital markets and to establish itself as a leading capital market in the region.

19 Information on the Members of the Board of Directors of BSE-Sofia AD under Article 247 (2) of the Commercial Code

(Table 20)

<i>Total remunerations received by the Board of Directors in 2007: BGN 316,000</i>	
<i>Shares acquired, held and transferred by members of the Board of Directors in 2007:</i>	
<i>Bistra Ilkova</i>	None
<i>Viktor Papazov</i>	Held: 68,980 shares in the capital of the company; Acquired in 2007: 22,700 shares.
<i>Andrei Pramov</i>	None
<i>Ludmila Elkova</i>	None
<i>Plamen Georgiev</i>	None
<i>Todor Breshkov</i>	None
<i>Vladimir Vladimirov</i>	None
<i>Rights of members of the Board of Directors to acquire shares or bonds of BSE-Sofia</i>	
<i>Bistra Ilkova</i>	None
<i>Viktor Papazov</i>	None
<i>Andrei Pramov</i>	None
<i>Ludmila Elkova</i>	None
<i>Plamen Georgiev</i>	None
<i>Todor Breshkov</i>	None
<i>Vladimir Vladimirov</i>	None
<i>Participation of members of the Board of Directors in commercial corporations as general partners</i>	
<i>Bistra Ilkova</i>	None

BULGARIAN STOCK EXCHANGE- SOFIA

<i>Viktor Papazov</i>	None
<i>Andrei Pramov</i>	None
<i>Ludmila Elkova</i>	None
<i>Plamen Georgiev</i>	None
<i>Todor Breshkov</i>	None
<i>Vladimir Vladimirov</i>	None
<i>Holding of over 25 per cent of the capital of another corporation by the members of the Board of Directors</i>	
<i>Bistra Ilkova</i>	None
<i>Viktor Papazov</i>	CREATIVE SOLUTIONS OOD, AGRO AQUA AD
<i>Andrei Pramov</i>	Adlon Discount OOD, Three A OOD
<i>Ludmila Elkova</i>	None
<i>Plamen Georgiev</i>	UG MARKET AD, BULNAT HOLDING OOD
<i>Todor Breshkov</i>	Breshkov & Sons OOD, City of Plovdiv
<i>Vladimir Vladimirov</i>	None
<i>Participation of members of the Board of Directors in the management of other corporations or cooperatives as managerial agents, managing directors or members of a Management Board, a Board of Directors or a Supervisory Board</i>	
<i>Bistra Ilkova</i>	Bulgarian Export Insurance Agency AD: Chair of Board of Directors; Aval IN AD: Chair of Board of Directors; Synergon Asset Management AD: member of Board of Directors.
<i>Viktor Papazov</i>	AGRO AQUA AD: Chairman of Board of Directors; Creative Solutions OOD: Managing Director.
<i>Andrei Pramov</i>	Adlon Discount OOD: Managing Director; Three A OOD: Managing Director.
<i>Ludmila Elkova</i>	None
<i>Plamen Georgiev</i>	UG MARKET AD: Executive Director; BULNAT HOLDING OOD: Managing Director; TELEVISION AND RADIO REPAIR SERVICES AD: Executive Director.
<i>Todor Breshkov</i>	FIRST FINANCIAL BROKERAGE HOUSE OOD: Managing Director; PZBK AD: Member of Board of Directors; First Investment Bank AD: Member of Supervisory Board; Bulgaria Real Estate Fund REIT: member of Board of Directors.
<i>Vladimir Vladimirov</i>	Investbank AD: Executive Director.
<i>Contracts concluded by members of the Board of Directors or their related parties under Article 240b of the Commercial Code</i>	

BULGARIAN STOCK EXCHANGE- SOFIA

<i>Bistra Ilkova</i>	None
<i>Viktor Papazov</i>	None
<i>Andrei Pramov</i>	None
<i>Ludmila Elkova</i>	None
<i>Plamen Georgiev</i>	None
<i>Todor Breshkov</i>	None
<i>Vladimir Vladimirov</i>	None

20 Transactions of Material Importance for the Activity of the Company, Expected Investments and Personnel Development

A major transaction of material importance for the activity of the Exchange is the implementation of the Xetra® trading system. Major investments will be made in this connection in:

- New communications;
- Technical equipment;
- Personnel training;
- Training members and stockbrokers to handle the new system;
- Expenses on adapting the COBOS system for work with Xetra®.